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SUBJECT: TURKEY UNVEILS SCHEDULE FOR NABUCCO

REF: ANKARA 687

Classified By: Acting Economic Counselor Rebecca Neff for reasons 1.4 (B) and (D)

¶1. (C) Summary. On May 30 and June 4, we met with Turkey's Nabucco Coordinator Osman Goksel and MFA Energy Issues Department Head Berris Ekinci, respectively. Both understood that Turkey is being blamed for lack of progress on Nabucco and they detailed a re-invigorated GOT approach to Nabucco to counter that perception. Goksel shared with us a project schedule for Nabucco, mapping out milestones for negotiations. Ekinci said MFA U/S Apakan would assume a new coordinating role to overcome stove-piped policy formulation on Nabucco. End summary.

Turkey charts a path forward

¶2. (C) Goksel shared with us an impressive-looking gantt chart for Nabucco. It maps out a time horizon and milestones for negotiating three key agreements for Nabucco: an Intergovernmental Agreement (IGA), a Host Country Agreement (HCA), and a Joint Venture Agreement (JVA). According to the schedule an IGA and HCA (an agreement between each Nabucco country and the National Nabucco company) will be completed by October 16, 2008. Other agreements, including the Joint Venture Agreement (commercial agreement between the companies) will be completed by October 4. Goksel said he planned to circulate the project schedule to other countries and seek agreement on a way forward.

¶3. (C) The HCA will be the most difficult to negotiate because it contains provisions for Turkey to buy gas for its domestic use. Notably, Turkey has been seeking assurance from Nabucco partners that it will have the right to buy some of the Shah Deniz Phase II gas, perhaps up to 8 bcm (ref a) and get it priced for less than they now pay Russia, or at least not more than European consumers downstream pay. Ideally, Turkey would like to see the price determined in a transparent way, perhaps linked to an EU gas price index. Because senior energy ministry officials have been prosecuted for signing gas price deals deemed too high, price remains a sensitive issue.

¶4. (C) Goksel said Turkey is working to create a national Nabucco company, which will require new legislation. Goksel said the IGA will include some legal language that will allow Turkey to make the necessary legislative changes.

Frustration with the EU

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¶15. (C) Goksel expressed frustration with the EU negotiating process. He understands the EU objects to the 15% gas transit reserve formula (at net-back prices) but three months of negotiation with the EU have failed to produce an alternative idea to meet Turkey's gas needs. The EU had proposed the idea of "book building" where Nabucco companies would negotiate gas purchases together as a block. Germany company RWE and Austrian company OMV apparently objected to this model. Goksel explained RWE and OMV have already benefited from an exemption to EU competition rules allowing each of them to book 5 bcm of the total capacity of Nabucco. RWE and OMV apparently made the case that financing for Nabucco depended on some volume guarantees. Goksel explained that book building would require its own exemption to EU rules likely annulling RWE and OMV's previous agreement. Goksel said he will go to Brussels again June 15-16 to continue talks with Brendan Devlin, Deputy to EU Nabucco Coordinator Jozias van Aartsen, and hopes to find a solution to the current impasse.

¶16. (C) In a separate conversation, MFA Energy Affairs Department Head Berris Ekinci complained about the EU's lack of leadership on Nabucco. Ekinci said Turkey has not heard from van Aartsen since his February 14 visit to Ankara. At that time, van Aartsen said he planned to prepare a report to the Commission on Nabucco. Ekinci said the MFA would like an opportunity to comment on that paper, especially as it relates to Turkey, but that the EU had not circulated a

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draft. When pressed, Ekinci admitted that the MFA has not specifically requested a draft. Ekinci said Hungarian Nabucco Coordinator Mihaly Bayer told the MFA that an EU-convened IGA conference would likely be held in late June, however, the Turks has not yet received an invitation.

Internal GOT coordination improves

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¶17. (C) One bright spot for Nabucco is improved GOT internal coordination. MFA U/S Apakan called together Goksel, Energy Ministry Acting U/S Cimen and BOTAS Chairman Duzyol June 3 and reportedly read them the riot act for circulating a draft IGA among Nabucco partners without prior approval of the MFA. Ekinci said there should now be regularly scheduled coordination meetings between Apakan, Cimen, Duzyol and Goksel. In addition, the MFA is reviewing the milestones and negotiating process followed in Baku-Tbilisi-Ceyhan to see if a similar negotiating methodology can be applied to Nabucco.

¶18. (C) Comment: MFA's increased engagement may stem in part from the Ambassador's complaints June 2 to FM Babacan that Nabucco remained stalled and that previous promises of changes in Turkey's approach had not materialized. Goksel's schedule for concluding three major agreements for Nabucco by the end of the year is overly ambitious and will inevitably slip. However, Goksel's initiative shows that Turkey understands it is being blamed for lack of progress on Nabucco and is trying to chart a constructive path forward.

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